

Message Text

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TO AMEMBASSY CAIRO PRIORITY
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AMEMBASSY ABU DHABI PRIORITY
AMEMBASSY KUWAIT PRIORITY
AMEMBASSY DOHA PRIORITY

C O N F I D E N T I A L STATE 101030

EXDIS

E.O. 11652: GDS

TAGS: MASS, EG, SA, TC, KU, QA

SUBJECT: FUNDING EGYPTIAN MILITARY AND MILITARY-RELATED
PURCHASES

REF: A. STATE 68709, B. JIDDA 1498 (NOTAL), C. KUWAIT
1645 (NOTAL), D. DOHA 379, E. ABU DHABI 765, F. CAIRO 9127,
G. CAIRO 9188, H. ABU DHABI 808, I. CAIRO 9429 (NOTAL),
J. STATE 70143

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1. DEPARTMENT IS ENCOURAGED BY EMBASSIES' ABU DHABI, DOHA,
JIDDA AND KUWAIT EVALUATION OF HOST GOVERNMENT ATTITUDES
TOWARDS ASSISTING EGYPT FINANCE F-5 PURCHASE (REFTELS B,
C, D, AND E). CONSENSUS (INCLUDING REACTIONS OF EGYPTIAN
MINWAR GAMASY, REFTEL G) IS THAT FUNDING SHOULD BE HANDLED
THROUGH SOME SORT OF TRUST OR ESCROW ACCOUNT.

2. SIMILAR POINT ON WHICH THERE IS AGREEMENT IS THAT GOE SHOULD BEAR SOLE RESPONSIBILITY FOR INITIAL APPROACH TO PROSPECTIVE DONORS. IF FUNDING VIA A CONSORTIUM DEVELOPS, WE WOULD ANTICIPATE SAUDIS TAKING THE LEAD: GOE THEREAFTER MIGHT FOCUS ITS DISCUSSIONS ON THE SAUDIS. WE REALIZE, HOWEVER, THAT GOE MAY WISH FOR POLITICAL REASONS TO HAVE PARALLEL CONTACTS WITH OTHER DONORS AT THIS STAGE.

3. FOLLOWING ARE THREE OPTIONAL APPROACHES, ANY OF WHICH COULD SOLVE THE PROBLEM PROVIDED ALL PARTIES MEET OBLIGATIONS IN A TIMELY MANNER.

4. OPTION ONE: UNDER MODEL DISCUSSED IN PARAS 3-5 OF REF J, GOE WOULD SIGN FMS LOA AND ASSUME DIRECT AND FULL RESPONSIBILITY FOR PAYMENT. DONOR GOVERNMENT(S) WOULD MAKE PAYMENTS DIRECTLY TO TRUST FUND ESTABLISHED IN DENVER. BILLS WOULD BE FORWARDED DIRECTLY TO GOE, WHICH WOULD INFORM DONOR(S) OF ANY NEED TO REPLENISH TRUST FUND. SECURITY ASSISTANCE ACCOUNTING CENTER AT DENVER WOULD SEND COURTESY COPIES OF ALL BILLS FOR SCHEDULED PAYMENTS TO DONOR(S). DONOR(S) IN TURN WOULD SIGN FOLLOWING NOTE WHICH WOULD BECOME PART OF RELEVANT LOA SIGNED BY GOE: QUOTE: THE GOVERNMENT OF (BLANK) HEREBY UNCONDITIONALLY GUARANTEES FULL PAYMENT FOR ALL DEFENSE ARTICLES AND SERVICES PROVIDED HEREUNDER, AND AGREES TO PAY THE USG SUCH AMOUNTS AT SUCH TIMES AS MAY BE SPECI-

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FIED BY THE USG IN THIS LOA IN ORDER TO COVER SHIPMENTS FROM STOCK OR SERVICES RENDERED OR TO MAKE PAYMENTS REQUIRED BY CONTRACTS UNDER WHICH ITEMS ARE BEING PROCURED AND ANY DAMAGES AND COSTS THAT MAY ACCRUE FROM CANCELLATION OF CASES HEREUNDER. PAYMENTS SHALL BE MADE IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THIS CASE. END QUOTE. THIS BASIC APPROACH HAS BEEN APPLIED SUCCESSFULLY IN CASE OF SUDANESE PURCHASE OF C-130'S. MODEL WAS DEVELOPED AND PRESENTED TO SAUDIS AS ONE USG INTENDED TO FOLLOW FOR ALL FUTURE SUCH ARRANGEMENTS.

5. OPTION TWO: DONOR(S) COULD CONTRIBUTE FUNDS DIRECTLY TO EGYPT, WITH GOE RESPONSIBLE FOR PAYING ALL BILLS. THIS METHOD WAS USED FOR PEACE PYRAMID I AND WORKED REASONABLY WELL. OBVIOUSLY, ARRANGEMENTS BETWEEN GOE AND DONOR MUST CALL FOR RECEIPT OF FUNDS BY GOE WELL IN ADVANCE OF PAYMENT SCHEDULE FOR PARTICULAR TRANSACTION.

6. OPTION THREE: A COMMERCIAL TRUST FUND ACCOUNT (VARIATION OF PROPOSAL DISCUSSED REF H), MIGHT BE ESTABLISHED. UNDER THIS OPTION, GOE WOULD SIGN FMS LOA AND ASSUME RESPONSIBILITY FOR PAYMENT. HOWEVER, DONOR GOVERNMENT(S)

WOULD ESTABLISH EITHER IRREVOCABLE LINES OF CREDIT WITH A U.S. COMMERCIAL BANK, OR DEPOSIT FUNDS IN ADVANCE IN AN INTEREST BEARING ACCOUNT, AGAINST WHICH DRAWDOWNS MAY BE MADE AS NECESSARY TO MEET SCHEDULED PAYMENTS. THIS ARRANGEMENT MINIMIZES BILL COLLECTOR RISKS. THIS WOULD AVOID USG, INCLUDING TREASURY DEPARTMENT, INVOLVEMENT IN FINANCIAL ARRANGEMENTS MADE BETWEEN GOE AND DONOR(S).

7. FURTHER TO GENERAL ISSUE OF FINANCIAL ARRANGEMENTS FOR

RELEVANT GOE PURCHASES, IT IS APPARENT THAT PRELIMINARY GOE PLANNING MAY BE BASED ON PIECEMEAL APPROACH; FURTHERMORE, COST ESTIMATES WHICH HAVE BEEN USED TO DATE ARE OUTDATED. GOE OBVIOUSLY IS LOOKING TO SAG AND OTHER
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ARAB DONORS FOR FINANCIAL ASSISTANCE RE NUMBER OF ITEMS IN ADDITION TO F-5'S. FOLLOWING IS CATALOGUE OF RELEVANT EGYPTIAN PURCHASES OF U.S. ITEMS, INCLUDING BOTH THOSE ALREADY CONTRACTED AND THOSE MAJOR PROGRAMS IN THE OFFING (NOTABLY F-5'S):

PROGRAM	ESTIMATED COST
14 C-130'S	201.6 MILLION DOLLARS
12 RPV'S	66.5 MILLION DOLLARS
E-1/PHASE III	125.0 MILLION DOLLARS
50 F-5'S	550 MILLION DOLLARS

REMARKS: ON C-130'S, 11.6 MILLION DOLLARS DOWNPAYMENT HAS BEEN MADE; REMAINING PAYMENTS ARE PHASED TO MEET CONTRACTOR BILLINGS AND, HENCE, HAVE A DIRECT BEARING ON DELIVERY SCHEDULES. ON RPV'S, GOE HAS DEFERRED DECISION ON PURCHASE, ESSENTIALLY DUE TO FUNDING PROBLEMS; LOA HAS BEEN EXTENDED THROUGH JUNE 30 WITHOUT CHANGE IN PRICE. ON PHASE III OF E-1, CONTRACT HAS BEEN AWARDED TO GENERAL ELECTRIC; GOE RESPONSIBLE FOR ARRANGING FINANCING FROM NON-U.S. SOURCES. ON PROPOSED SALE OF F-5'S, ANY ESTIMATE MUST BE VERY BROAD PENDING NEGOTIATION OF LOA AFTER CONGRESSIONAL CONSIDERATION OF PROPOSED SALE. \$550 MILLION IS BEST CURRENT ESTIMATE OF ALL SUPPORT USAF BELIEVES NECESSARY TO ASSURE SATISFACTORY OPERATION AND MAINTENANCE OF AIRCRAFT, BUT FINAL PROGRAM COSTS WILL BE DETERMINED BY GOE DESIRE AS TO PROGRAM CONTENT. FOR EXAMPLE, \$550 MILLION ESTIMATE INCLUDES CONTRACTOR SUPPORT AS WELL AS OPERATIONAL AIRCRAFT EQUIPMENT SUCH AS INERTIAL NAVIGATIONAL SYSTEM AND RADAR WARNING RECEIVERS. (FYI: WE INTEND TO USE THE \$550 MILLION ESTIMATE IN FORMAL NOTIFICATION TO CONGRESS. END FYI)
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8. AS WILL BE SEEN FROM ABOVE, WE ESTIMATE THAT TOTAL GOE EXPENDITURES FOR THESE PURCHASES WILL BE AT LEAST 943 MILLION DOLLARS. ACCORDING TO REFTEL I, GOE MAY WISH TO TREAT BULK OF THIS AMOUNT AS "PACKAGE" IN SEEKING FUNDING ASSISTANCE FROM ARAB DONORS. AT DISCRETION OF AMBASSADOR, EMBASSY CAIRO MAY WISH TO REVIEW WITH GOE OUR UNDERSTANDING OF MAGNITUDE OF FUNDING PROBLEM CONFRONTING THEM.

9. ACTION REQUESTED: REQUEST VIEWS OF RESPECTIVE AMBASSADORS CONCERNING MERITS/FEASIBILITY OF OPTIONS PRESENTED ABOVE, IN LIGHT OF YOUR EVALUATION OF HOST GOVERNMENT'S ATTITUDES. ONCE WE REACH FIRM DECISION ON MOST USEFUL AND FEASIBLE ARRANGEMENT, WE WILL SEEK GOE AGREEMENT THERETO. THEREAFTER, AT APPROPRIATE POINT IN TIME (AFTER GOE HAS INITIATED NEGOTIATIONS RE FUNDING), WE PLAN TO APPROACH DONOR(S) TO OBTAIN AGREEMENT ON HOW TO HANDLE FINANCING. DEPARTMENT WOULD WELCOME EMBASSIES' SUGGESTIONS ON HOW BEST TO MAKE SUCH APPROACHES. CHRISTOPHER

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